



DEVELOPMENT STRATEGY OF ANHUI GARMENTS IMPORT&EXPORT Co. Ltd

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<p>Abstract</p> <p>Textiles are important export goods in China, and they played a key role in the economic development of China, but in recent years, domestic and international export environmental degradation leads textile export enterprises to face new difficulties.</p> <p>Anhui Garments Import & Export Co. Ltd. is a garment foreign trade export enterprise with certain strengths. The company is facing both opportunities and challenges in the current situation. The thesis was based on Anhui Garments Import & Export Co. Ltd. marketing status quo, combined with the situation of marketing environment, researching and analysis the company's development strategy. SWOT and PEST analysis were used to identify the problems concerning the development of the company. The business operations based on SWOT analysis will be presented, and some implementation suggestions also.</p> <p>Comprehensive analysis and evaluation of the strengths and weaknesses of the companies in the industrial upgrading not only help the development strategy of Anhui Garments Import & Export Co. Ltd., and other enterprises of the same industry but also have a certain reference value and practical significance.</p>			
<p>Keywords</p> <p>textile industry, industry transfer, industrial upgrading, PEST analysis, SWOT analysis</p>			

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1 INTRODUCTION

The textile industry is one of the traditional Chinese industries and an important livelihood industry with obvious competitive advantage in Chinese exports industry, it plays a vital role in the development of China's national economy. The textile industry's proportion of the total industrial output value of GDP in China has been rising since 2004. According to the data from China Textile Industry Association, there are 130,000 textile and garment enterprises in China (including Hong Kong and Macao). The upstream and downstream industry chain is related to the total number of the employed population of about 230 million people. However, the development of China's textile industry has been slowing down during the recent years. (China Textile Association, 2012)

Anhui Garments Import and Export Co., Ltd. is a leader in textile import and export enterprises in Anhui Province. But Anhui Garments Import & Export Company cannot go with the old path of the eastern part of the textile industry; it is a mere processing industry that has strong external dependence. Not only they are facing the risk of falling profits all the time, but also they are in the low-end of added value, the profit margins are very low. Through the analysis of the situation of the company, industrial upgrading becomes the inevitable choice to get rid of the plight, transferring the manufacturing culture into creation culture. This thesis can be a reference for Anhui Garments Import and Export Co. Ltd in industrial upgrading strategies.

1.1 Research Problem Definition

Undertaking industry better, seize the opportunity to promote the development of the Anhui textile industry, it cannot just be copied by the eastern part of the prevention industry again. Leaving a higher and better way, give full play to cultural superiority, to ensure that the industry chain of low-end profits at the same time how to fight for more high-value-added profits.

1.2 Research Objectives and Implementation

China has the world's most abundant labor, and the development of China's textile industry has benefited from this. At the same time, China has the large population to be the world's largest market too. China is the largest origin but also the largest consumer market, but the first-line and second-tier brands in China are basically from abroad. With only few local brands, the profit is earned by the foreign companies as a designer, and brand culture owner. On the other hand, the numbers of foreign orders has reduced a lot in recent years too, even it is in danger as the most low-end processors in the industry chain status, so it is necessary to establish their own brand culture for their own processing.

Industrial upgrading mainly refers to the trend of the evolution of the state from low-skilled, low-value-added state to the high-tech, high value-added industry. On the macro level, industrial upgrading is oriented in the same amount of capital to acquire an equivalent profit, resources move between the various industries of the national economy. On the micro level, industrial upgrading is competition oriented resources moves from inefficient companies to the high efficiency of enterprises within the same industry. When China moves into the middle industrialization time gradually, the upgrading of textile industry must be given some new meanings. As mentioned earlier, the complexity of the economic environment and the intensity of competition, indicate that Chinese textile industry needs industrial upgrading.

(Zhou 2010, 99-102.)

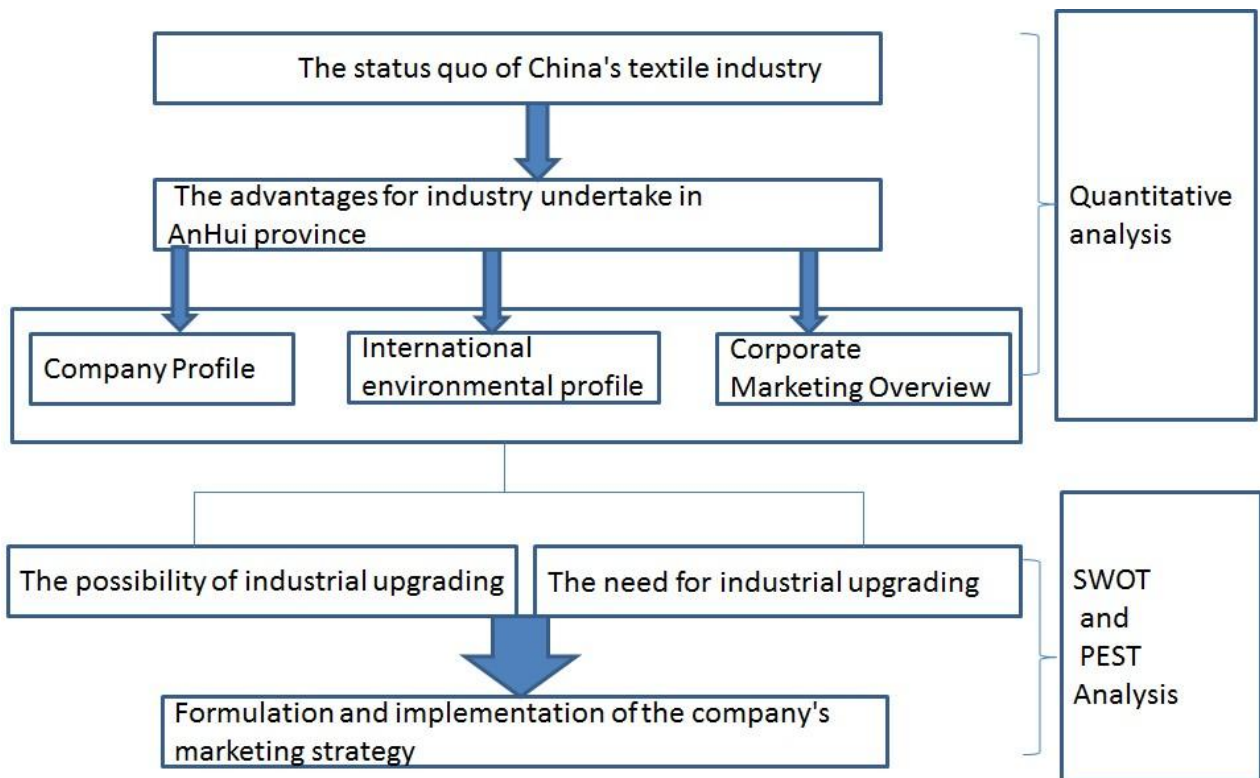


Figure 1. The Structure of the Report

The main goal of the research is focusing on the Anhui Garments Import and Export Co., Ltd. international and domestic economic environment and the company's own marketing environment and marketing status quo analysis to identify the advantages and disadvantages of the company's marketing strategy, combining the learned marketing theory with the situation to improve the company's marketing strategy. The main idea is presented in Figure 1.

2 PRESENTATION OF THE CASE COMPANY

2.1 The Increase of Textile Industry in China

From January to July 2012, the national garment industry suffered negative growth with exports of \$ 82.94 billion with a slight decrease of 0.2 %.

(China Fashion Weekly 2012, 2)

Export abroad

The market in Europe, America, and Japan remained in the doldrums. The garment exports to the United States and Japan had some growth. The exports were \$ 15.49 billion and \$ 11.48 billion. The increase is 2.5 % and 3.4 % from January to July respectively. The growth was less than the previous years. Clothing exports to the EU deteriorated further, with exports of \$ 20.34 billion, it went down 16.6 %. In addition, the garment export to Russia and South Korea didn't also have optimistic, decreased by 1.4 % and 10.6 %, respectively.

(China Customs Statistic 2012)

Export to provinces

The top four provinces of the garment export province in China are Guangdong, Zhejiang, Jiangsu and Shanghai, all of them have a poor export situation. The export showed a slight downward trend, the decline was between 1 % and 4 %. Other provinces like Fujian, Anhui and Shandong showed a downward trend also, the decline there was of 1 % -17 %. (China Customs Statistic 2012)

Table 1. Chinese Textile and Garment Exports in 2012. (China Chamber of Commerce for Import and Export of Textiles 2012)

Monthly statistics of Chinese textile and garment exports in January-September 2012		
Months	Exports (million U.S. dollars)	Year-on-year (%)
January	2151873.1	-0.46
February	971173.9	-7.01
March	1878962.5	13.4
April	1880043	-5.4
May	2183395.1	7.35
June	2288789.8	-0.04
July	2388909.5	-8.1
August	2459966.9	-3.35
September	2512566.2	9.33

The reasons for substantial increase in textile industry, involve a lot of factors both at home and abroad. Here are some simple reasons for it.

Raw material

The cotton's price rose in 2010. The highest increase for years more than doubled the price (Chinese cotton imports account for about 1/3 of the global imports) .

(Chinese Cotton association 2012)

Energy costs

Fuel and power prices rose by 21.3 % in 2010 compared with 2009

(National Bureau of Statistics 2012)

Labor costs

Labor costs increased by 20 % to 30 % (2000-2010)
(National Bureau of Statistics 2011)

The reason for the increasing labor costs is complex. Even there are find no conclusion about it now, there are two reasons in labor force itself.

The one is 'Family Planning Policy' in China, which means one child only in a family. 10 years or 20 years ago, there were 3 even 5 child in the family, these 'Children' became the Chinese abundant labor force when they were in 20 to 50 years old. However, when they get older, they have one child only, even so, there still are many young people can be labor in factories, the trouble is that the only one child should feed his parents, it make one worker's income support the whole family with three people. So they require higher salary, and another problem is Chinese pension policy which is imperfect too.

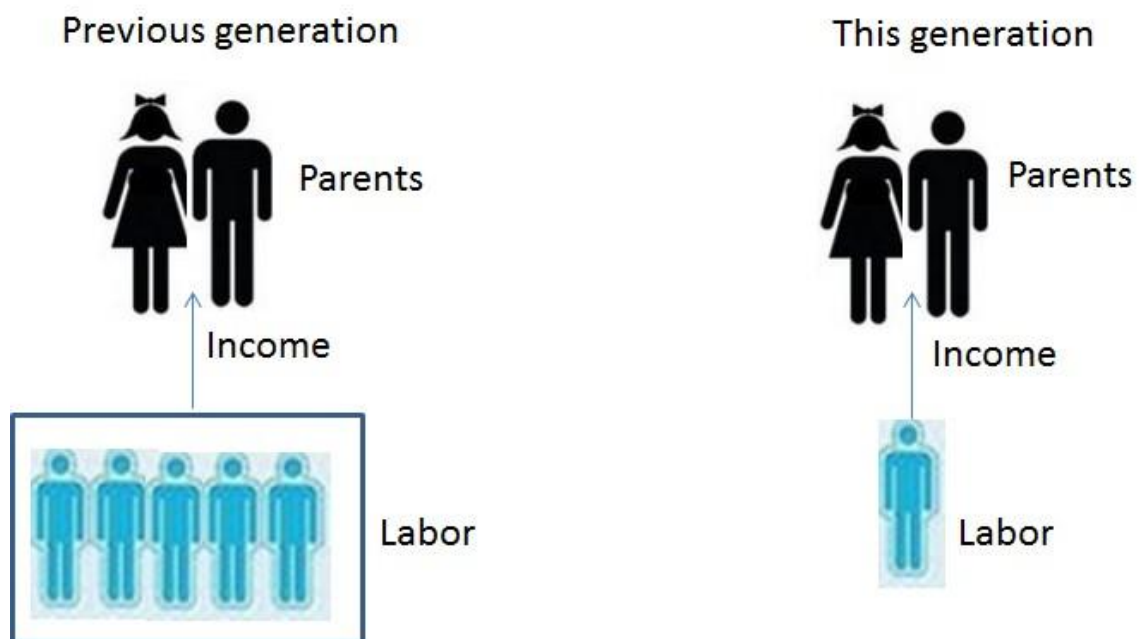


Figure 3. Affect of Family Planning Policy to Labor Costs. (Interview with Gui)

One reason is also family education. Young people are not willing to work at factories any more. They refuse the hard work and low income. Everyone wants to be a manager and has always been taught how to win, how to succeed. Working in a factory is a kind of disgrace. This makes fewer and fewer young people to work in workshops.

Government's policy Energy conservation efforts are also an objective to increase the environmental costs.

RMB (Chinese Yuan) appreciation impact on the textile industry

Chinese textile industry is export-oriented. However, the RMB appreciation hinders on China's export of textile products, and leads China's textile products to take a hit in international sales. According to customs statistics in 2011, the knitted apparel exports were 80.168 billion U.S. dollars, and the increase was 20.2 percent, the export volume was 20.765 billion Chinese Yuan, down 0.4 %, and woven garment exports 63.077 billion U.S. dollars, the growth was 16.0 %, the export volume was 8.462 billion, the decrease was 2.7 % compared with 2010. (General Administration of Customs of the People's Republic of China 2012

The rapid development of competitors, and losing the price advantage gradually

Textile industry is an important industry in China and ASEAN countries. There is fierce competition in this area. In 2007 international management consulting agency global fiber textile industry released the world's textile industry labor costs per hour from global report. The labor costs in Chinese coastal expanding fast, and approaching \$1 per hour. However, according to official statistics, th countries such as Vietnam, Cambodia, Bangladesh and Indonesia, the domestic textile industry labor costs were \$0.29, \$0.36, \$0.22 and \$0.36 per hour. Southeast and African governments are focusing the textile and apparel industry to create a competitive industries. Nike and Adidas, the multinational giants, have announced a reduction procurement plan in China. Industrial restructuring and transfer has a long way to go. (Jiang 2009)

The Chinese garment and textile industry has high dependence on export. Most garment enterprises make low value-added products, and therefore the price factor is still important factors in export. It leads International economic

conditions impact on China's apparel industry deeply. Nowadays, Chinese textile and apparel exports occupy global market share of 32.7 %, the main market are Europe, the United States and Japan, but these markets are basically saturated. Although China will continue to occupy the position of the world's manufacturing center for a long time in the future, weakness of Chinese garment industry like poor design, fabrics, accessories, and apparel accessories cannot still meet the increased requirements for high value-added products. (China Chamber of Commerce for Import and Export of Textiles 2012)

2.2 Anhui Garments Import & Export Co., Ltd.

The Anhui province has a good location, abundant natural resources and labor resources as well as rich cultural heritage. All of these make labor-intensive textile industry suitable for Anhui Province. Affected specifically by the international financial crisis, the textile industry of eastern coastal areas has been facing many difficulties in recent years. The apparel export industry of Anhui Province has a good development opportunity.

Anhui Garments Import and Export Co., Ltd. was established in 1979. The major industry is international trade while it is operating in domestic trade, real estate development and textile inspection business. With quality products, professional services, and the experience accumulated in the process of international operations in the past three decades, the company has established a strategic partnership with a large number of internationally renowned companies and also has won a good reputation and high visibility.

The company has twelve export divisions, a domestic division, a modern international standards design and testing center for textile and clothing. It also has four wholly-owned holding garment production bases and certain holding subsidiaries. International trade business covers woven garments, knitted garments, home textiles, textile fabrics, electrical and mechanical, luggage, shoes, hats, gloves, sports goods, hardware, health care, food and other fields. The business scope has radiated to more than 150 countries and

regions around the world. The annual import and export volume is \$ 250 million and total exports accumulated to more than \$4 billion until now.

The company has implemented brand marketing strategies and has trademark registration in more than 20 countries and regions. The company has passed ISO9001: 2008 quality management system, and Oeko-Tex Standard 100 professional certification. The company was rated "AAA credit enterprise" by banks many times, and as "AAA Credit Enterprise" by the China Chamber of Commerce for Import and Export of Textiles. The company is adhering to the business philosophy of "integrity-based, customer first, quality first, equality and mutual benefit". It is promoting the spirit of enterprise of "people-oriented, honest work, competition and unity, learning and innovation".

The national import and export situation is particularly severe in 2012 by the adverse factors such as weakened international market demand and the rising domestic integrated costs. The first eight months of this year, the national export growth slowed sharply, and textile and garment exports declined. The company has optimized the structure of export products and integrated supply chain, and explored new markets. The company was the 64th of the national rankings of 2009. The textile and apparel exports, that amounted of \$ 139,530,000, it ranked 71th in 2010 with the amount of \$ 148,810,000, in September 2012, the company achieved total imports and exports was 1.18 billion Chinese Yuan (about 0.187 billion US dollar) which exports 1.1 billion Chinese Yuan.

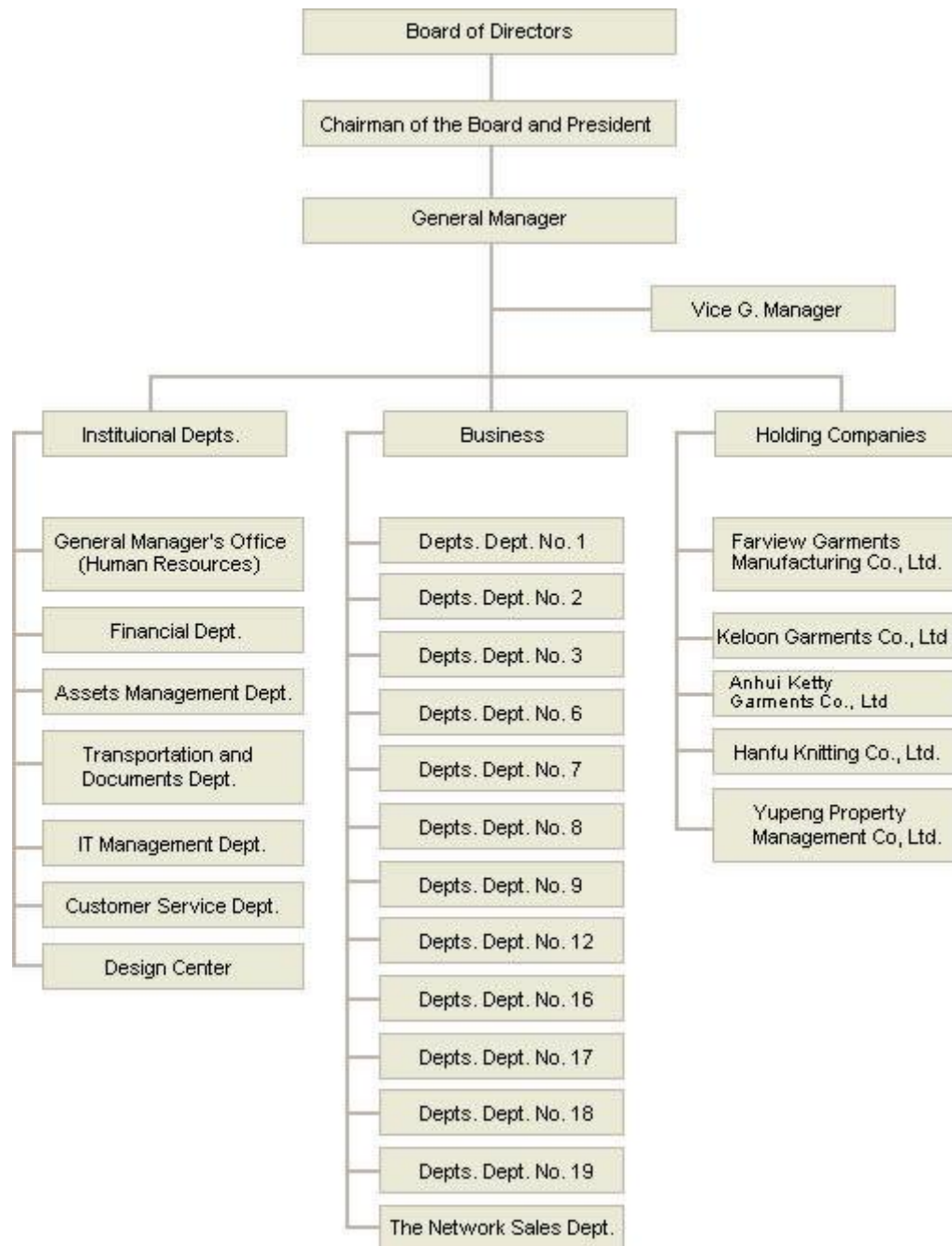


Figure 3. Organization Charts in Anhui Garments Import and Export Co.Ltd Agency. (Anhui Garments Import & Export Co. Ltd. 2012)

General Manager's Office (Human Resources) is responsible for the secretarial, conference and seals, records management, human resource management, foreign affairs management, trademark management, exhibition organization, and other company's administrative work in the company.

Financial Department is in charge of organization and preparation of the company's financial plans, monitoring of the implementation of financial plans, organization of financial statements and financial analysis report monthly, management of the company's fund, organization of accounting work and establishment of a sound financial internal control system, responsible for tax payment and tax refund for export, and implementation of other matters assigned by the company.

Assets Management Department is responsible for the company or its shareholding enterprises investment in the asset management and auditing; responsible for investment projects, feasibility studies, project bidding, contract review and other project management, it is helping Investment enterprises establish a sound investment and financial management; responsible for the audit for the retired staff, it is also responsible for industry and commerce, taxation, organization code inspection, and implementation of other matters assigned by the company.

Documents & Transportation Department is in charge of export credit review, and formulation and review of company's export declaration documents and remittance documents, issuing import letter of credit, review import documents and acceptance of foreign payments; storage, transportation and customs clearance for company's import and export bulk, export foreign exchange verification, and application and verification for processing trade manual.

IT Management Department is in charge of the company's information construction planning and implementation, coordination and collaboration with relevant departments, management, and maintenance of computer software, hardware and computer network to ensure the safety of the system.

The responsibilities of Customer Service Department are maintenance of company quality system documents; customer credit management, contract review, shipment review, management of overdue accounts, policy formulation and process supervision for risk management; preparation for company's import and export business, import and export statistics and business analysis, legal service and legal consulting service, and company's domestic packing material purchase.

Design Center is the only designated "public service platform of textile" in Anhui Province. Equipped with advanced American PGM CAD Pattern system and Japanese TAJIMA Embroidery technology, It is also in charge of garment departments' samples-making and technical assistance. It is qualified to do physical and chemical performance tests(currently nearly 20 related test items and more than 30 standard items) for fabrics and accessories under American and European standard through imported testing equipment. The platform provides not only professional technical support in new product development and quality control for the company but also door to door services for cooperative factories.

The whole department division is based on the product category. Each department is responsible for one or two kinds of products. In terms of holding company, all of them are garment manufacturing plants. The products include garments, bags, shoe products, glove products, electrical machines and stock products. Although this is a garment export processing company, it is not involved in the production process directly.

Shortly, when the company receives an inquiry for an order, the company considers the varieties and other details, and is looking for a suitable manufacturer (holding companies first) to obtain a cost quote, to get the samples in the shortest time. If the buyer satisfied with the samples and price, and discusses the specific details of the contract are discussed. When the contract is negotiated and the goods are on board, the trade is completed.

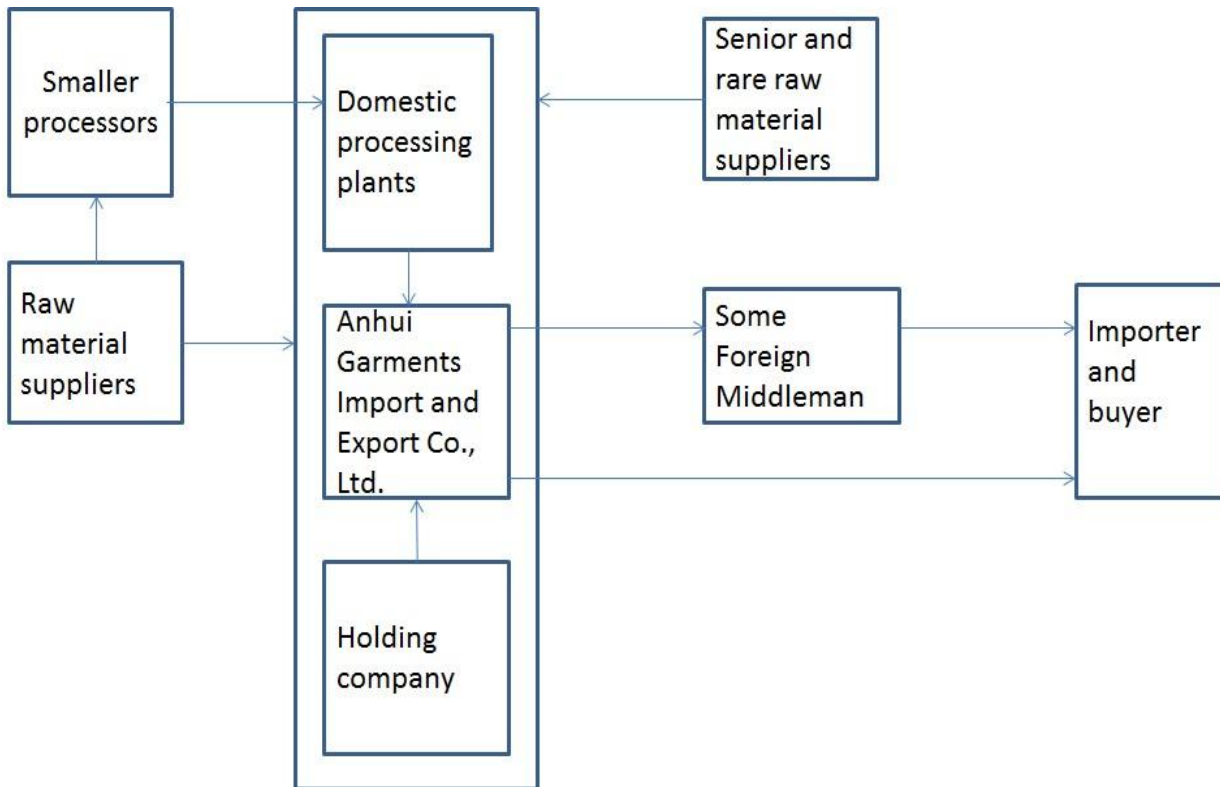


Figure 4. AnHui Garments import and Export Co.Ltd Workflow

There are some reasons why the domestic processing plants and smaller processors don't sell the goods to buyer or foreign middleman directly. This is why the company wants to keep their old business but don't want to make any changes either.

A. AnHui Garments Import and Export Co. Ltd is experienced in the international business. Many salesmen have nearly 20 or even 30 years of experience.

B. The size of factories is too small to run an export business by themselves, focusing produce can make lower invest and cost. Because the invest will be lower and they needn't to feed much of workers in workshops.

C. AnHui Garments import and Export Co. Ltd has good relationship with government and banks. They can make the export process more efficiency, saving time is making costs lower.

D. Large companies have better credit, and they receive bulk orders.

3 ANALYSIS BASED ON THEORIES OF INTERNATIONAL TRADE AND INDUSTRIAL ECONOMICS

3.1 Theories of International Trade

In fact, many theories have been described and explained the point of this report before this chapter. These business theories have been used to support this thesis process.

International trade is the exchange of capital, goods, and services across international borders or territories.

3.1.1 The comparative advantage theory of the comparative advantage trap theory

In theoretical circles, theory of absolute cost, comparative cost theory and the theory of factor endowments collectively are referred to as the traditional trade theory in general. The theory of absolute cost is launched in "The Wealth of Nations" by Adam Smith, and after Ricardo's modifications, comparative cost theory was formed. The basic idea of comparative cost is that the production of different products in different countries has differences in labor productivity or cost differences. (Pugel 2010, 33-40)

Countries manufacture products with comparative advantage, to obtain benefits through international trade. Factors of production differences lead to different factor prices, and the using proportional of factors of production in countries is also different. Eventually this leads to different prices and led to the emergence and development of the international trade. Nations should make division of labor to produce goods, they should intensively use the country's rich elements for maximum benefits. The theory of comparative advantage has formed a relatively complete system, which is logical and structured.

For a long time, the theory of comparative advantage has been an important theoretical basis in the national industrial development strategy in China too. China imports capital-intensive and technology-intensive products, but exports mainly. Labor-intensive products the textiles are part of this sector obviously. The main advantages of the Chinese textile industry on the international performance in terms of cost are lower labor resources, low-cost and low land rents. (Jacobson 2009, 88-120)

However, such problems as low efficiency, fragile and industrial structure and non-price competitiveness issues such as problem are making Chinese textile industry troubles. China has advantages in low value-added production and processing only. However, the lack of high value-added textile industry partially offset Chinese advantages in labor and land resources. Chinese textile products occupy the low-end market to gain the meager profits only.

Moreover, it has to be seen that there is obviously insufficiency in terms of innovation of traditional comparative advantage strategy. There is a danger to fall into a comparative advantage trap.

Comparative advantage trap is to enjoy in their own natural resources and costs and be unable to rescue by themselves. In fact, the advantage of labor costs or natural may mean that is the industry is less demanding, and attract more entrants. When more and more enterprises, regional or national attract by such industries, they will find, soon that they are stucked because of too many assets invested in their competitive advantage and the advantage constantly disappears.

Furthermore, the fact is that, the textile industry in India, Pakistan, Indonesia, Mexico and other countries matures now, even they have lower labor and land resource, The comparative advantage of Chinese textile industry is gradually lost. (Pugel 2010, 33-40)

In general, the factors of production can be divided into primary production factors and advanced factors of production. Comparative advantage has emphasis on the natural resources, such comparative advantage has played an important role in the relatively early phases of industrial development. (Pugel 2010, 33-40)

However, the core of advanced production should be the factors with high-quality human capital, which has innovative features. Innovation can not only reduce the cost of the material but also to create a material that can replace the primary factors of production and capacity. And enhancing the brand and other intangible assets, it can increase the added value and competitiveness too. (Pugel 2010, 33-40)

In this thesis, it is studies how Anhui Garments Import and Export Co., Ltd can keep their traditional comparative advantage and avoid falling into the comparative advantages trap, and the significance and necessity of the adjustment and upgrading of industrial structure. (Pugel 2010, 33-40)

3.1.2 Smiling curve

The smiling curve was created by Taiwan's Acer founder Shi Zhenrong in 1992, and named due to the curve shape of a smile. It shows that all aspects of the value chain profit distribution are regular.

The value is more reflected in the design and sale part of the curve at both ends. But the value of the manufacturing sector in the middle of the distribution is reflected rarely. There are Figure 5 and Figure 6 which show it clearly;

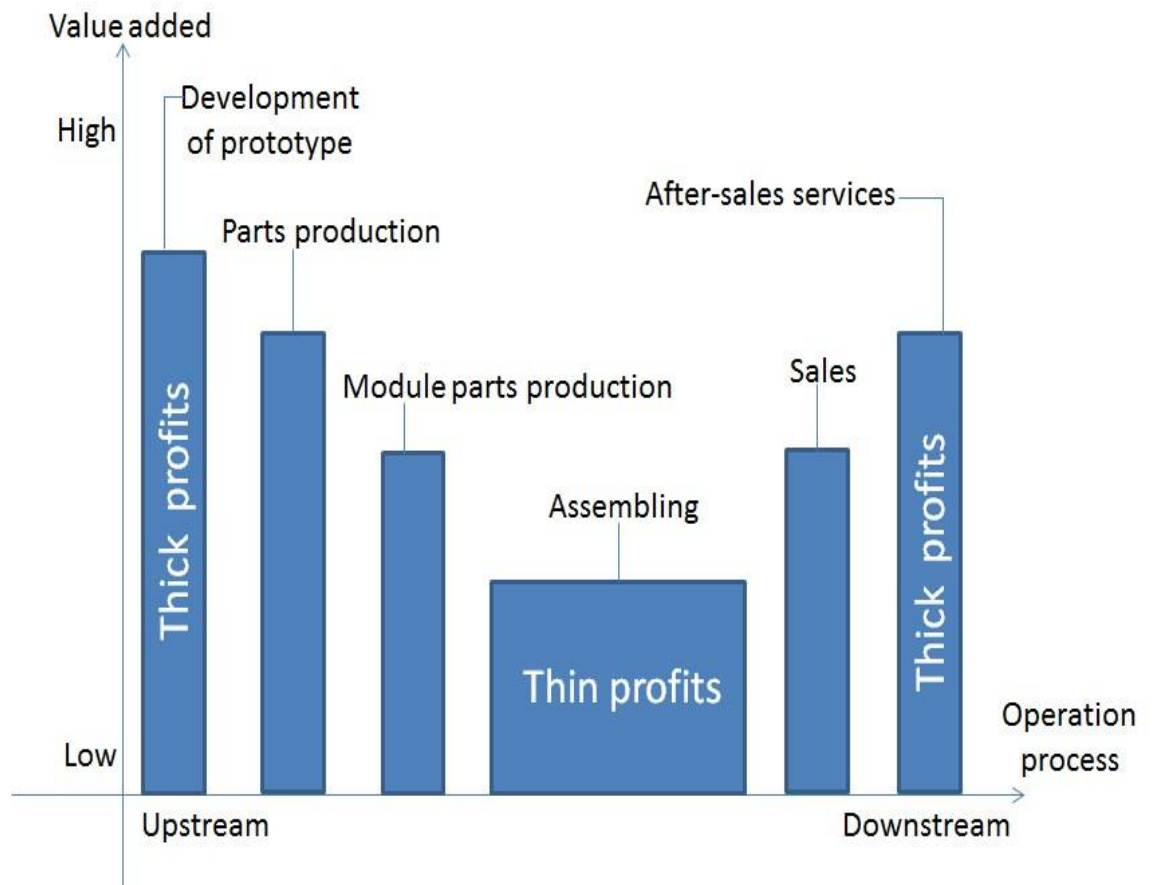


Figure 6. Smiling Curve of the Industry Chain. (Guo 2012, 44)

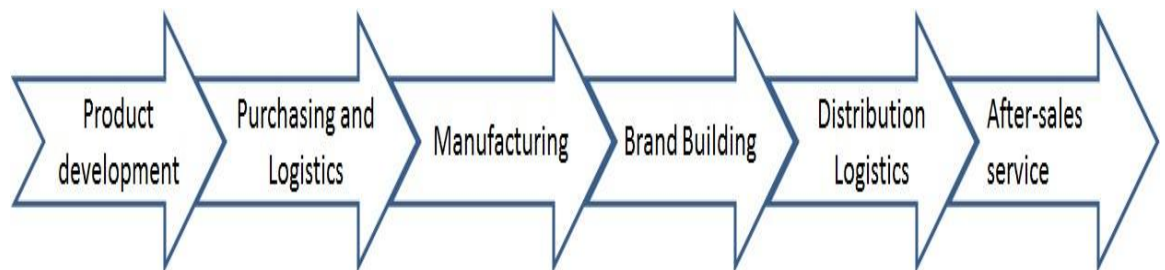


Figure 7. Value Chain of Every Aspect in the Industry Chain. (Guo 2012, 44)

Obviously, Anhui Garments Import and Export Co., Ltd are situated in the middle position (assembling and manufacturing). Who owns the brand owns the upstream and downstream sectors.

The textile and garment industry has entered the time of brand competition now. The brand driven is the best way to capture the market.

This thesis describes the significance of Anhui Garments Import and Export Co. Ltd changing the simple processing export-oriented enterprises to participate more aspects in the production processes with the help of the smiling curve theory. It also decreases how to get rid of the weak position of the high dependence and low value-added.

(Interview with Gui)

3.2 Theories of Industrial Economics

Different from international trade, industrial economics focuses on production more.

3.2.1 The core competence of the corporation

A core competence is a concept in management theory originally advocated by CK Prahalad, and Gary Hamel. In 1990 with their article titled "The Core Competence of the Corporation" in *Harvard Business Review*, Prahalad and Hamel illustrated that core competencies lead to the development of core products and techniques.

In *Competing for the Future (1994)*, the authors Prahalad and Hamel show how executives can develop the industry foresight necessary to adapt to industry changes. They suggest that the key to revitalize the process of new business creation is core competencies.

In fact, before the 1990s, basic ideas of the Core Competence was already existed, such as the exclusive capacity and knowledge, the allocation of resources, organizational capacity and intangible concept. They have stressed the important role of special knowledge, capacity and resources to achieve sustaining and competitive advantage.

In recent years, the research of core competence has gone deeper and deeper among Chinese domestic theorists. Chen Jiagui, vice president of CASS, noted that Core competence refers to the cumulative knowledge and ability in the process of production and operation, especially with regard to how to coordinate different production skills, knowledge and ability to integrate a variety of technologies, which create a unique business philosophy over other competitors in terms of technology, products and services.

The company's core competence is to have a competitive advantage in long-term stability and long-term stability which is higher than average income. Facing the competition, superiority and inferiority of their products will show up, The core competence is the collective ability to learn within the corporation, especially about how to coordinate different production skills and integrate multiple streams of technologies. The two most obvious characteristics of the core competence are the following. First, the market position must be aligned with customer needs. Second, it is not easy for competitors to imitate. Those internally both have their own advantages, and they meet customer needs. (Wang 2011, 209)

At present, the domestic competition is becoming intense, the post-quota era has aggravated the impact of foreign brands on the domestic clothing brand. In order to be in an invincible position in the international competition for survival and sustainable development, those foreign trade garment enterprises must develop their own core competence. The core competence is that the enterprises, in research, design, manufacturing, marketing, service and other sectors, have obvious advantages that are difficult to imitate. The necessary ways and means for the foreign trade garment enterprises to stand undefeated is to develop new products to face the fierce competition. (Wang 2011, 209)

The successful development of new apparel products can also put your own business in a dominant position. China has the world's largest clothing production scale. How to deepen integration, and improving efficiency is the key to success: emancipate the mind, improving the economic system,

developing a new model of the garment industry, speeding up industrial upgrading, rapidly transforming from extensive to intensive, and combining scale and efficiency to achieve the transformation of the international industry by the trade clothing enterprises to survive in the international economic environment facing hardships, That is of great significance. (Wang 2011, 209)

By using the Core Competence Theory, this report analyses the importance of having its own brand culture at Anhui Garments Import and Export Co., Ltd. Although more advanced and more sophisticated production process also belongs to the enhancing of competence, this cannot fundamentally change the pattern of production. It is necessary to have the core competence, culture and market advantages. This paper presents the argument that Anhui Garments Import & Export Co. Ltd is able to do a good job for the possibilities and advantages in the later analysis. (Wang 2011, 209)

3.2.2 Industrial upgrading

Industry upgrading includes two aspects,

On the one hand, it refers to the industry's quality and efficiency. Industrial upgrading must rely on the development of technologies; technology is a necessary precondition for industrial upgrading.

Industrial quality and efficiency include mainly three points:

- 1) The combination of the factors of production to achieve the optimal level.
- 2) The development of industries' production technology and enterprise management level.
- 3) The Improvement of product quality.

On the other hand, industrial upgrading is an improvement on the structure in the various industrial. It can be divided into two parts:

- 1) Various industries in proportion of various industries in coordination.
- 2) Upgrading the industrial structure.

Although the meaning of the industry in these two areas is different, the two aspects have a close relationship. This is because the improvement in the industry structure and improvement in quality and efficiency is complementary. The improvement of the industry structure benefits to industrial improvement in quality and efficiency. However, the improvement in the quality and efficiency contributes to the upgrade of the industrial structure, also.

(Guo 2009, 22)

The research in this report combines industrial upgrading theories which relate to Anhui Garments Import & Export Company. Broadly speaking there are two aspects:

The one is rising from the low-end link of the value chain to high-end segments.

The other one is from exports to domestic sales; this is another kind of industry upgrading.

(Shi 2011, 144-150)

4 ANALYSIS BASED ON PEST AND SWOT

4.1 PEST Analysis

PEST analysis stands for "**P**olitical, **E**conomic, **S**ocial, and **T**echnological analysis" and describes a framework of macro-environmental factors used in the environmental scanning component of strategic management.

4.1.1 Political factors

Political factors make significant influence to purchasing power, corporate governance and other enterprise-related activities. Political system, institutions, policies, laws and regulations of a country or region constraint and affect the business activities of enterprises, in particular, affect the longer-term investments.

Stable political environment

Though China's political environment is rather special with its strong community party, the economic policy has been maintained a stable policy for the past 30 years. Reformation and opening is insisted by each session leaders, so the political environment is stable.

Tax policy in China

China's tax rate has been in decline for the past 30 years. Expect customs duties, China's domestic corporate tax has never had a significant growth.

The economic policy in China

China's market economy status is not universally recognized by the international community, partly because Anhui Garments Import and Export Co. Ltd this kind of nation owned company, which have such political background, so the policy is also beneficial to the company.

Some International trade organizations which China participates are

- a. The ASEAN 10+3 launched in 1997, the 10 means the ten nations in ASEAN, and 3 means China, Japan and Korea.
- b. China has become the 143th full member of WTO (World Trade Organization).
WTO is the worlds' most widely and deepest influential trade organization. The Chinese government began to prepare for joining in 1982, and finally succeeded after 20 years to get the membership.
- c. China joined the Asia-Pacific Economic Cooperation (APEC) in 1991.

4.1.2 Economic factors

Economic factors refer to the development of national economy, which includes both the international and the domestic economic situation. The industrial environment and competitive environment faced by the enterprise are the other elements. The development of national economy should be seen both as a short and long term process by marketers.

A. Economic structure of society

It refers to different economic sectors of national economy, different industrial sectors, mutual adaptability and proportion of every aspect of social reproduction. Industry system is the most important factor among industry system, distribution system and consumption system. Industry system can be divided into the First (farming), the Second (manufacturing), and the Third (service industry). The three main industries rank up in turn. The proportion of service industry has a positive correlation with the development of a country.

Although economic aggregation is large, China has some problems with its industrial structure. Adjustment and upgrade in Anhui province is in line with the country's development trends. However, clothing imports and exports is just a fraction of the national industrial structure.

B. Level of economic development

We have witnessed the great progress China has made in economy. As for GDP, China has already surpassed Japan and is up to NO.2 in the world. Admittedly, there are still problems, output per head is behind as well as the industry, but the improvement of the total amount of ascension also create more opportunities to the domestic enterprises to carry out the industrial adjustment and upgrade.

C. Macroeconomic policy

The department of state released textile adjustment and revitalization planning in April 2009. When planning development project, China's textile industry can surely accomplish from a big country to a powerful country in textile field. Anhui province government has issued a series of files to achieve this goal.

D. Economic condition

It has been the upward risk trend of the whole world from early 2010. Beset by it, clothing import and export companies in Anhui province reduced orders. On the other side, it is the right opportunity to welcome the update. Still, there should be funding insurance, because of the large-scale of the company.

4.1.3 Social and cultural factors

A. Population element

The three significant factors in the market are purchasers, purchasing desire and power. The purchasing power is closely related to economic agent while the purchasers are relevant to demographic factor. The demographic factor includes population size in various cities, zones and countries, population growth rate, population structure, race combination, educational level and so on.

Table 2. Comparison table of income and clothing consumption in urban and rural area from 2000 to 2009. (China Statistical Yearbook, 2001-2010)

Table: Comparison table of income and clothing consumption of urban and rural from 2000 to 2009								
Years	Income per capita in Urban area(YUAN/YEAR)	Clothing consumption per capita in urban areas(YUAN/YEAR)	Clothing consumption ratio in urban area(%)	The proportion of urban residents(%)	Net income Per capita in rural areas(YUAN/YEAR)	Clothing consumption per capita in rural areas(YUAN/YEAR)	Clothing consumption ratio in rural areas(%)	The proportion of rural resident(%)
2000	6280	500.46	10.01	36.22	2253.42	95.95	5.75	63.78
2001	6860	533.66	10.05	37.66	2366.4	98.68	5.67	62.34
2002	7703	590.88	9.8	39.09	2476	105	5.72	60.91
2003	8472	637.72	9.79	40.53	2622	110.27	5.67	59.47
2004	9422	686.79	9.56	41.76	2936	120.16	5.5	58.24
2005	10493	800.51	10.08	42.99	3255	148.57	5.81	57.01
2006	11759	901.78	10.37	43.9	3587	168.04	5.94	56.1
2007	13786	1042	10.42	44.94	4140	193.45	6	55.06
2008	15781	1165.91	10.37	45.68	4761	211.8	5.79	54.32
2009	17175	1284.2	10.47	46.59	5153	232.5	5.82	53.41

China is the first most populous country in the world, and the large population mobility helps promoting rapid population urbanization. The regional disparity also becomes more obvious, prompting the population density and distribution to change. All these elements have huge influence on consumption pattern, consumption scale, consumption level, commercial networks and service mode. The changes of request to clothing in the Chinese urbanization process from 2001 to 2009 is clearly depicted in the table 2. The traditional large

families are replaced by miniaturized nuclear families due to the shock of family planning and modern civilization. What's more, nonfamily households like single or collective residencies grow up in eastern developed cities such as Shanghai. This type of households have fewer requirements to merchandise and convenience is their appeal point in marketing. Furthermore, the Chinese women have experienced a rapid promotion in their social status. More career women not only lead to the increase in population purchasing power, but also make the commodity structure more diverse.

B. Cultural context

Cultural context involves outlook of value and ethics, etc, China is vast in territory and in populations. All result in varieties of cultural and distinguishing in areas. When it comes to market positioning, we must focus on differences between area's consumer culture. Salespeople should pay more attention to local customs, in order to avoid damaging to the brand or even the corporation's image.

Besides, as an Anhui-based corporation, the Hui culture of Anhui has a distant origin and a long development, and it can totally support the historic cultural deposits of Anhui clothing brand efficiently.

C. Reservation and change of lifestyle

Since 1980s, Chinese people have gone through changes in lifestyle more than ever before, but there are still Chinese customs inherited for thousands years ago, The corporation should always focus on Chinese diversity of lifestyle while positioning brand, the Spring Festival is a Chinese festival, but at the same time Christmas is also a growing commercial opportunity.

4.1.4 Technical context

Technical context refers to the effect of contemporary social technical standard and changing trend, technical changes and technical breakthrough to the corporation, and the performance of technical interaction to political and economic social environment, etc. (It has particulars of fast-changing, large changes and great influence) Technique is not only the motive force of globalization, but also the complete merits of the corporation.

A. Changes brought by the Internet

On-line sales is becoming an indispensable part of sale means. According to a statistical data from China's Ministry of Industry and Information Technology, by 2009 the number of Chinese netizens has a net increase of over 80,000,000, which comes to a total of 384,000,000, that is the first ranked in the world. Chinese broadband users took up 90 %, country netizens amount over 100,000,000, there are 233,000,000 people surfing the internet by the mobile phone. These netizens are mainly well-educated, high-paid, aging ranking 20 to 35, it's the age of pursuing fashion and expressing their personality, so they call for individual demands on clothing. Via the internet, we can accomplish personal service, fulfill the demands of the customers, increase the degree of customers' satisfaction, and then increase the brand loyalty. Besides, as they are high-qualified and high-potential, they will grow much in one or two decades either. They will also be the main force of consuming high-grade goods, so they will become targets that corporations striving for.

(Interview with Xiao)

B. Trade technical obstacle

Although China is a large manufacturing country, it is not a technically powerful country, according to the third industrial data, Chinese large and medium-sized enterprises are falling behind International standard 5 to 10

years in technology, they use 40 % more energy compared International standards, when it comes to exports, they always run into cases for being rejected for bad quality caused by technical problems since 2008, American International Trade Constitution published a report on Chinese fabric clothes import. Some members of EU proposed to be on the alert of Chinese mainland products import, the statistic from Department of Commerce Bureau of fair trade, Jan to Nov in 2001, Chinese products take up 47% of the 459 fabric clothes products called back by EU. If Chinese fabric industrial wants to expand to the International market better, it must improve producing technology and product quality, to meet the International requiring technology/quality standards. To do a good job in other links of the industrial chain, requiring not only the manufacturing link littered, but also needs higher quality and higher standard. (General Administration of Customs of the People's Republic of China, 2012)

According to PEST analysis, a conclusion can be drawn that Anhui Clothing Trade Corporation's industrial restructuring and update environment of merits is:

A. Politically encouraging

According to a series of political analysis, we can see that Chinese government has noticed the unreasonable industrial structure a long time ago, and it has required reconstructing all the time, Anhui Clothing Trade Corporation as a state holding corporation should response more to national policy, seize the opportunity, and take part in high value-added industrial chain.

B. Guaranteeing the cash-flow

The corporation is a large one, and holds good credit records with the bank; we can ensure enough money to start the reform.

C. Consuming ability of the Chinese market

Through almost 20 year of economic development, the urbanization is progressing faster. Not only people's consuming ability grow greatly, but also the consuming levels are divided more apparently, so the company can be more focused while marketing.

D. Splendid local culture

While brand building, we can take advantage of the effect of Anhui culture, it not only improve the corporation's industrial restructuring, but also improve the soft power of Anhui district.

4.2 SWOT Analysis

SWOT analysis is a strategic planning method used to evaluate the **S**trengths, **W**eaknesses, **O**pportunities, and **T**hreats involved in a project or in a business venture. It involves specifying the objective of the business venture or project and identifying the internal and external factors that are favorable and unfavorable to achieve that objective.

4.2.1 Strengths

A. Human resources

Anhui Garments Import & Export Co. Ltd started since 1979 and it is experienced in the area of foreign commerce. In addition, it has developed a lot of professionals who are not only familiar with the trade but also capable of managing communication with clients properly. The company has over 300 high performance professionals who are extremely experienced about woven/knitted garment and household textiles etc.

The company does not have any strict work attendance checking system. Instead, it values professional ability, achievement as well as its internal harmony and teamwork efficiency. As a result, core staffs hardly change their position which is better for the steady development of the company.

B. Resources of clients and suppliers

The company has accumulated a lot of long-term stable clients based on long-term commerce and mutual understanding with clients. In America, it has e.g Wal-mart Stores Inc, the Gap Inc, and Columbia Sportswear Co. etc., and in Europe, it has H&M, Kaukomarkkinat Oy, Carrefour, S.Oliver, Seppala. While in Japan, it has Marubeni corporation, Sumitomo, Nissho Iwai Corporation among many others.

In addition, the company has long-term corporation with over 150 national suppliers. Therefore, as suppliers are familiar with their criteria in terms of production and quality, it is guaranteed that garment orders will go smoothly.

C. Favorable market reputation

The company is always strict with its quality of garments for export. Furthermore, it has passed International Standards Organization (ISO 9001:2008) along with Oeko-Tex Standard 100. In addition, it thinks highly of quality improvements to meet customer requirements, and resolve guests reflect problems anytime. It won a good reputation among enterprise customers and production plants. Therefore, in the purchasing and marketing chain, it has got the support and cooperation by partners.

D. Abundance of capital

The company is in a proper financial condition, with low debt ratio. Apart from that, the company has decent credit management system, which directly leads to multiple times of “AAA credits enterprise” (provided by banks).

E. State holding

Anhui Garments Import & Export Co. Ltd is one of the state holding companies, which means it has an exclusive privilege of government support.

F. Stable ability of producing

Anhui Garments Import & Export Co., Ltd started since 1979, which is already 33 years ago from now. Gaining benefit from its long history of working within OEM production, it has accumulated its own factory buildings, related equipment, professionalized management team as well as experienced workers. Up to 2012, over 80 % of its workers hold college or higher degree.

G. Privileged industrial foundation

After more than 10 years of industrial contribution, China has already had developed industrial system, which leads to high performance of production. Especially for the development of processing trade, it not only complies with the international needs but also has the ability to produce large amount of products under the requirements of international market. All of these above have improved the position of China within international division of labor. In the meanwhile, they have also provided superior foundation for updating industrial structure.

4.2.2 Weaknesses

A Deficiency marketing ability

Anhui Garments Import & Export Co. Ltd is located in Anhui province, which makes it less attractive to specialists and directly leads to shortage of international marketing experts. It is experienced in the export trade area; however, majority of its products belong to original equipment manufacturer (OEM). Besides, this company is extremely unfamiliar with its markets or channels. There is no famous brand or ability of independent designing.

B Unreasonable product mix represented by majority of low-grade converted products

In general, this company does not have a balanced industrial structure. It mostly produces low-grade converted products and only a tiny amount of high-grade or high-tech products. This will definitely have a negative influence for the profit of Anhui Garments Import & Export Co. Ltd

C Low production capacity

Since the reform and opening-up policy, some industries in China have improved a lot with the influence of foreign investment companies. However, the gap between China and developed countries still exists. Based on the research from the third industry research, the technical merits of majority of Chinese medium-and-large-sized companies are 5 to 10 years behind the international standards, with 40 % more energy consumption. Therefore, labor intensive processing work seems to be the only choice for those companies.

D Uncontrollability of suppliers

As the company does not produce products directly, the ability of quality control is insufficient. In addition, many large corporations have already got export management right of their own; therefore, the dependency to foreign trade corporation has decreased and GT Company has lost control for its merchandise resources along with fewer suppliers.

E Location

Compared with Shanghai or Guangzhou, Anhui is a bit remote. It does not have any advantage in obtaining information, attracting experts or communicating with clients.

F Outdated departments

This company is still an old-fashioned nationalized Chinese company, which means it lacks of efficiency and is not capable of surviving under the new standards of international competitive market. Overstaffed, unreasonable salary system and negative task-oriented salesmen are all current problems.

G Demographic bonus is nearly over

Demographic bonus is defined to be that period of time in a nation's demographic evolution when the proportion of population of working age group is particularly prominent. This occurs when the demographic architecture of a population becomes younger and the percentage of people able to work reaches its height.

However, due to the one-child-policy, aged tendency of population has accelerated and the cost of labour force has increased, which means the demographic bonus is nearly over.

H Being not familiar with the domestic market

This company has focused on export trade business for years. However, the situation of foreign countries is totally different from domestic. For instance, consumer preferences, consumer structure, competitors and their prize, channels and distributors are all different. The company barely knows anything about domestic market which is a huge disadvantage for expanding business.

I Lack of necessary regulations

Since the reform mechanism was not in place during the reform and opening-up, the most state-owned enterprises and private enterprises in China did not become a dominant force in the processing trade due to the mechanism of rigid market resilience. Therefore, the major interests and the development process of the processing trade are in the hands of foreign-funded enterprises. Moreover, there are some negative factors which are detrimental to technique refinement and industry update when the government puts preferential policies into practice. This has a severely negative influence in transformation and upgrading of processing trade.

4.2.3 Opportunities

A Policy support

Preferential policies to encourage and support the development of processing trade in China include mainly the following:

- (1) There is no tax when importing raw material and equipment in textile exporting company.
- (2) Not levy processing VAT, and partly duty-free in processing imported materials.

Chinese processing trade policy is constantly adjusted to become the main driving force for the rapid development of China's processing trade with the changing structure of the processing trade.

B Having some design skills

The company joins into foreign clothing concept and design process sometimes, learning much experience in the long term OEM business. It will help the company when starting the new business.

C Healthy domestic economy

Nowadays, the international economy is still flagging, but domestic market developing stability compared to the international market, with the people's living standards getting higher and higher, the domestic market will be broader with great potential. The stability and prosperity of socio-economic environment provide the company the best opportunities and infrastructure.

D International economic integration

As China becomes a world-class manufacturing base, more and more foreign enterprises link to China by raw material procurement, manufacturing, assembly and distribution. Not only having promoted faster development of Chinese processing trade, textile technology and technical level of textile workers have improved also, and the expansion of business scale has also brought huge capital which can be used to purchase advanced machinery.

4.2.4 Threats

A Rising costs

With the rise in labor costs and land costs, the comparative advantage of the company is gradually lost.

B Numerous domestic garment factories

The new and numerous clothing companies establishment in last 10 years, especially in the coastal provinces like Jiangsu and Zhejiang with potential information and developed manufacturing ability can be a huge potential threat. The accomplished local brands, like ANTA and LINING, are all located in these areas. Moreover, because of the impact of the financial crisis and its aftermath, there will be more foreign trade garment enterprises reselling in domestic market, which will no doubt be exacerbated by the shock of the domestic market share.

C Rising oil prices

Rising fuel prices make transport from costs significantly higher.

D Domestic market environment needs to be improved

Objectively speaking, there still are many unreasonable operations in the domestic market. Upstream suppliers and downstream distributors and retailers can do anything for their own interests through some unfair means of competition. The ultimate victims are harmful to clothing manufacturer which is in the middle.

E International brands have a huge advantage in the domestic market

For a long time, a large number of domestic garment manufacturers engaged in OEM production, but paid little enough attention to brand building. Not only lead this to use the design and marketing skills less, but also it made International brands to have high share of Chinese domestic market. Especially occupation of high-end brands (high profit) is more exaggerated, so Anhui Garments Import and Export Co., Ltd. Goal that its own brand take one piece of domestic market share has a long way to go.

F Financial crisis

Since the outbreak of the financial crisis, the banking industry has been affected to monetary tightening, corporate finance has become difficult. At the same time, this has made more businesses turn to domestic market which has resulted make more and more competitors. (Wu 2012, 36)

Strengths	Weaknesses
Rich in human resources Customers, suppliers, resource-rich A good reputation in the market Capital adequacy State-owned holding Good industrial base Relatively stable production capacity	Unreasonable Product structure Low level of production Supplier is uncontrollable Location Organizations obsolete Demographic dividend is ending Not familiar with the domestic market Lack of a complete institutions in reform
Opportunities	Threats
Policy support Have some design skills Healthy domestic economic International economic integration Improvement of textile technology	Rising costs Numerous domestic garment factory Rising oil prices Domestic market environment needs to be improved International brands have a huge advantage in the domestic market

Figure 7. SWOT Summary

There are seven strengths, five opportunities and eight weaknesses and six threats in the industry upgrading, it is obvious that AnHui Garment Export & Import Ltd. Co has some advantages like qualifications, scale, background, but more and more disadvantages like environment, fierce competition are appearing, AnHui Garment Export & Import Ltd. Co should seize the favorable opportunities, the weaknesses and threats will increase more with the lapse of time.

5 DEVELOPMENT SUGGESTIONS

After the introduction and analysis, the development suggestions are started next.

5.1 Strategies Based on SWOT Analysis

Based on the SWOT analysis, restructuring and upgrading of Chinese processing trade should adopt the following development strategy

Growth strategy

- A The opportunity of Transnational Corporations' strategic adjustment should be handled to enhance the level of development of processing trade, nowadays, all the international companies must increase investment in research and develop sectors in the value chain gradually. The same applies to Anhui Garments Import & Export Corporation. It has to grasp accurately the opportunities which are favorable for the development of processing trade, make policies better and use more innovative management methods, while maintaining the growth in the quantity, it has to focus on improving the quality and efficiency of the processing trade up.
- B Through advantages of industrial clusters when compared to a single enterprise, the management fees and operating costs are lower, technological innovation and management innovation are more flexible, economic benefits after success in innovation success is more obvious too.

Therefore, Anhui Garments Import & Export Corporation should take advantage of the domestic upstream and downstream enterprises corporation, and enhance the role of industrial clusters, promote industrial upgrading and the new generation of products, in order to achieve the occupation of the domestic market through its own brand.

- C Helping processing plant to increase production capacity

Anhui Garments Import & Export Company has many share-hold factories. Once they cannot receive the orders from Anhui Garments Import and Export Company, they will face closure, so Anhui Garments Import & Export Company can choose a number of factories, and use its strengths to help them improve the factories' production efficiency and quality. On one hand this can make commodity sources stable. On the other hand, it can control the production process.

Turnaround strategy

- A The upgrade of textile industry should be promoted from labour-intensive to capital-intensive and technology-intensive. Industrial upgrading concerns the following two aspects:
 - 1) Reducing the proportion of the labor-intensive industries in the processing trade, focusing on the development of high value-added, high-tech industry and environmental protection
 - 2) Upgrading the labor-intensive aspects of the industry, no matter how to upgrade textile industry, the role of the labor will always play an important role, so improving the technical level of the labor force as well as the purchase of advanced machine is very important, too.
- B To cultivate R&D ability independent

High-tech industries should be developed through increasing business investment in R&D and scientific talent reserves and making supportive policies, innovation incentives and other measures should be established to develop high-tech products processing trade. Own brand should be developed and the core competitiveness of enterprises should be strengthened.

Diversification strategy

Transformation from material consumption-type machining to environment-friendly style is important.

To achieve this goal, firstly, the new system should be in accordance with the International Organization for Standardization ISO14000 environmental management. Secondly, environmental protection, conservation of resources, technological advances and other factors in the selection of the downstream industry factories should be focused. Thirdly, a processing plant assessment system should be established gradually, excluding the company which does not comply with the requirements. (Sun 2012, 44)

Defensive strategy

- A Investment in human capital should be increased, and improve the quality of the labor force should be improved.

To achieve the transformation and upgrading of processing trade, transformation from OEM to ODM (Original Design Manufacturer), OBM (Own Branding & Manufacturing) , should be supported by high-quality human resources. Therefore, strengthening the cultivation and recruitment of senior professionals will become more important, increasing on-the-job training, as well as raising wages.

- B Efficient management system

The new management system is needed to create the new processing trade regulatory model, not only to maintain the original processing advantages, but also to promote the purpose of the extension of the processing trade industry chain. Play a important role through the scale advantage to guide the development of regional garment industry. (Chai 2005, 77-78)

5.2 Implementation of the Changes

Based on the analysis and combined with the actual situation of the company. Industrial upgrading and the preparatory work to hold own brand can be divided into the following areas.

Ideological mobilization

For this size of commercial activity, the development should be allowed by the shareholders. It is a state-owned holding company, and the national government is encouraging enterprises actively for restructuring now, so they will support the upgrading.

Agencies preparation

Firstly, the original good revenue department should be remained as it is, although the difficulties encountered, but the advantages of the business in the company for the past 30 years cannot easily be given up. Secondly, a special department responsible for groups and staff drawn from the company's internal departments should be set up. The re-deployed to the spirit of the principle of voluntary, because some of the elderly salesmen may not be willing to give up familiar customers and markets, and it forced to deploy they only fail to achieve their goals, which will also the negative to the company.

Human resources preparation

Firstly, recruiting new employees is needed, as the company will need a large number of personnel involved in design and marketing, because there little staff with the needed skills..

Secondly, re-deployment within the company play a role, there are a lot of experienced trade staffs, though there are some difference between exporting business and exploring the domestic market, the high commercial sensitivity they have will be helpful to the new department. (Jia 2006)

Fund preparation

Actually, the company began to invest in Chinese real estates a few years ago, but the central government started the regulation of the real estate industry this year, and land prices getting higher. The company has now been thinking about quitting from the real estate industry, which will mean a number of funds to start a new project.

Production preparation

The company has a wealth of customer resources engaged in garment production as well as the company's own holding company. Technologically advanced, large-scale and high credibility enterprise must be found, stable long-term cooperative relations should be establish, and the production processes must be supervised, to ensure the product quality and production efficiency.

Marketing campaign

This is the most important and difficult step, because the company is not familiar with the commercial behavior, so the best way is powerful combination, Swedish dairy company Arla entered the Chinese market in the form of cooperation with the Chinese domestic brand Mengniu, in the same way, it is important to look for a domestic company which has influential brand and to set up a powerful combination in order to learn some experience before entering the market independently, this will be a low investment and low risk method.

6 CONCLUSIONS

In this report, it has been discussed the state of the environment and facing the new situation at Anhui Garments Import & Export Company, also the analysis, strategic development goals, solutions, and implementation of programs were presented.

The company is facing the double dilemma from international and domestic market. Firstly, international economic development has been slowing down, the economic recession caused by the U.S. subprime mortgage crisis began to spread to the whole world. European national debt crisis cannot be easily resolved. It is obviously a kind of market shrinking to Anhui Garments Import & Export Company, and especially it affects on export orders very much.

Secondly, Chinese economy is suffering from the crisis also, and in the same time, China in economic transition, there are sustained trade surplus, the appreciation of Chinese Yuan, reduction in the number of labor force and so on. Chinese export-oriented economic growth policy shifts to boost domestic demand gradually, even the Award into Imports Encourage but Export Limited policy has been implemented. This made a deep impact on export enterprises, especially for labor-intensive export enterprises; there is an urgent need to adjust the company's development strategy. However, the challenge is always been with opportunities, as the effects of 'Warm Boiled Frog', enjoying of comparative advantage profit blindly takes comparative advantage trap, too. The challenge is to use opportunities for the company out of the comparative advantage trap for long-term self-development.

The environment and the textile and garment export situation analysis, shows that garment export enterprises are facing tremendous pressure, the slowdown in export growth and compressed profit margins. Some processing companies have closed down. As a professional garment exports company, although there are no risks from factory, there is survival and development challenge in the environment, as the analysis about Anhui Garments Import & Export Company shows. The company is still in the early stages of development, and due to the lack of core value and competitive advantage, it

is dependable on the foreign market, the main business product is not technology, and the development is also not sustainable.

Through the external and internal analysis, some problems were found, these kinds of problems are so general in all Chinese textile enterprises, and Anhui Garments Import & Export Company is just a significant example. My analysis of the issues was raised to the strategic level, by decomposition of the strategic objectives, from customers, internal processes and advantages, to augmenting the strategies operability, and ensuring the goal achieving.

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